UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/CONF.151/PC/18
31 January 1991

Original: ENGLISH

PREPARATORY COMMITTEE FOR THE
UNITED NATIONS CONFERENCE ON
ENVIRONMENT AND DEVELOPMENT
Second session
Geneva 18 March - 5 April 1991
Item 2 (c) of provisional agenda

PREPARATIONS FOR THE UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT ON THE BASIS OF GENERAL ASSEMBLY RESOLUTION 44/228 AND TAKING INTO ACCOUNT OTHER RELEVANT GENERAL ASSEMBLY RESOLUTIONS:

CROSS-SECTORAL ISSUES

Progress Report on Financial Resources

Report of the Secretary-General of the Conference

The Preparatory Committee, at its first substantive session, in decision 1/29, "... requested the Secretary-General of the Conference to submit to it at its Second Session a Progress Report on the implementation of relevant provisions of General Assembly resolution 44/228 of 22 December 1989 related to financial resources and transfer of technology, in particular those of paragraphs 15 (j), (k) and (m) of Section I".

The secretariat has initiated a process of assembling and analysing existing information and consulting concerning new ideas and initiatives in respect of the important issue of financial resources to developing countries. This report deals with the issues which need to be considered by the Preparatory Committee at this stage so as to guide the secretariat in its further work on the subject. A separate document, A/CONF.151/PC/17 deals with issues which need to be considered with regard to transfer of technology.

1. The Context

All countries must be able to continue their development efforts. The right of developing countries to develop cannot be compromised by conditions or constraints imposed on resource flows in the name of environment. In fact, an acceleration of development will be necessary to deal with many environmental issues. Beyond that, there is general recognition that there are critical environmental issues which must be dealt with primarily within a national context, and others which have regional or world-wide implications.

Within this context, the first question is how to achieve more rapid environmentally sound economic and social development. Job creation, sustainable agriculture, education, and better health and population programmes, for example, are all part of a process empowering individuals to deal with environment issues. The pace of development, of course, depends upon a country's own policies and management. Development, even in poorer countries, is financed mostly from a country's own resources. Improved strategies and management and increased efforts at national resources mobilization will be necessary. Yet, supplementary resources from outside can make a critical contribution. World aid levels have remained about the same over the past decade and one key question is whether, and how, regular aid programmes for general development may be substantially increased in the 1990s.

At the national level, dealing with environmental problems - air and water pollution, toxic chemicals, etc. - will require preventative as well as curative measures. In some cases such measures may be cost-saving. But in most cases they will require additional funding from internal or external sources.

It is important for each country to develop cross-cutting strategies for dealing with national environmental issues in the development context. These should encompass the optimum mix of regulatory and economic measures, creating incentives for all parts of society to behave in an environment-saving way. Having said this, it should be underlined that implementation of an effective environment strategy will almost certainly require additional capital resources. With the extra pressures which accrued in the 1980s, developing countries will need substantial additional amounts of highly concessional financing from the outside for this purpose.

For the global issues, there is a special case for additional financing beyond amounts usually available for supporting more rapid development. The most important contribution to solving global problems in the short run will be through action in the industrial countries, which will have to find funding for this purpose through re-allocation of internal resources. But, increasingly, poorer developing countries will become partners in dealing with the global issues, and these will need substantial outside financing in order to enable them to take action which quite often arise from problems not of their making or which generate benefits of a global character.

While the above categories of effort (general development, national environmental programmes, and global environmental problems) are useful from an analytical point of view, in real life it is often hard to separate one from the other. For example, a national reafforestation programme makes sense

from a general development point of view, but also deals with a national environmental problem and contributes to the solution of global environmental issues.

The following paragraphs address specific institutions or processes which can be helpful in meeting the need for outside financial resources. UNCED 1992 and the preparatory process leading to it offer an opportunity for member States to consider how these institutions can be strengthened or processes implemented to improve financial flows for environment and development.

2. Agenda 21

The wide range of measures which the Preparatory Committee will be considering for recommendation to the Conference as part of "Agenda 21" will give rise to substantial financial needs at both national and international levels. At the international level the costs of these measures will be reflected in the need for expanded capacities of the multilateral agencies, particularly the agencies, organizations and programmes of the United Nations system which in turn will require substantial increases in the funds they will require. In each case, such measures must incorporate provision to ensure the full participation of developing countries. The UNCED secretariat and its Working Parties are endeavouring to estimate the costs of each of the measures to be included for consideration by the Preparatory Committee as part of Agenda 21. The following questions are amongst those the Preparatory Committee may wish to include in its consideration of this matter:

(i) To the extent that the measures provided for in Agenda 21 require long-term increases in and strengthening of the capacities of the agencies, organizations and programmes charged with implementing them, what proportion of the costs of this should be met from increases in their regular budgets and what proportion should be met through increases in voluntary funding?

(ii) Should these internal regular budget or voluntary funds continue to be augmented by outside catalytic funding for environmental activities from the Environment Fund of UNEP and from contract work for UNDP as "executing agencies" for development work?

(iii) To what extent will existing mechanisms and resource flows contribute to implementation of Agenda 21 and to what extent must they be met from "new and additional" financial resources?

3. Funding Required Under Conventions and Protocols

Most existing and new conventions, protocols and related legal instruments designed to deal with environment-related issues require provision for financing their administration and in some cases their implementation. The amendments agreed at the meeting in London, United Kingdom, in June 1990 of parties to the Montreal Protocol of the Vienna Convention for the Protection of the Ozone Layer agreed to incorporate in it provision for transfer of technology to developing countries and financial assistance to them in meeting the incremental costs of the measures they undertake in acceding to the Protocol. While the circumstances of this Protocol are of a somewhat unique nature, it is nevertheless recognized that provision for

financing and transfer of technology will be an essential component of major new environmental conventions. This will be particularly true of conventions on climate, bio-diversity and possibly forestry, which are now being initiated and for which the requirements of funding and technology transfer may be substantially higher and extend over much longer periods of time than those provided in the London amendments to the Montreal Protocol.

In respect of these needs, the Preparatory Committee may wish to consider the following questions:

(i) Should the funding arrangements provided for in such agreements be based on the principle of meeting the full incremental costs to developing countries of acceding to them, as in the case of the London amendments to the Montreal Protocol?

(ii) Should funds required under such instruments, particularly in respect of assistance to developing countries, be provided directly by the parties to each legal agreement through a separate mechanism such as a trust fund or through an overall funding mechanism through which the resources required in respect of all or several of such legal agreements would be channelled?

(iii) Similar questions arise as to the administration of such funds. (See Section 8 below.)

4. Capacity Building in Developing Countries

Limitations on the scientific, technological and professional resources of developing countries and in their related institutional and human development capacities have long been recognized as a serious constraint on the development of many of them. It is also a severe and growing constraint on their capacity to participate fully and equally in international environmental co-operation and in integrating environment fully into their development policies and practices. Developing countries are already receiving support from multilateral and bilateral sources in developing and strengthening these capacities through programmes of UNEP and others in developing environmental skills, legislation and institution building. Nevertheless, it is clear that, as recommended by the World Commission on Environment and Development, substantially higher levels of support will be required over extended periods of time if these countries are to develop the institutional capacities and human resources they will require to make the transition to sustainability in their own development and to participate fully in programmes of international environment and development co-operation, while reducing their dependence on more developed countries.

The recent initiative of UNDP in supporting the establishment of Sustainable Development Networks in developing countries provides a promising framework for this.

The UNCED secretariat is making special efforts in co-operation with UNDP, the World Bank and other agencies and organizations to consult with developing countries concerning these needs. Each working party set up by the UNCED secretariat to help prepare the documents required by the Preparatory Committee has been asked to evaluate and cost these needs in each area. Also, through the UNDP Resident Representatives, developing countries are being

consulted directly in respect of their particular needs. As a result, the secretariat expects to be able to provide the Preparatory Committee with estimates of the costs of meeting such needs. In considering these needs and how they might best be met, the Preparatory Committee may wish to address the following questions:

(i) To what extent is it feasible for these "capacity building" needs to be met from existing resource flows to developing countries and to what extent must they be met from "new and additional" financial resources?

(ii) To the extent that new and additional resources are required, can they best be provided through existing funding institutions and mechanisms and is there a need for changes in or additions to these?

5. Additional Needs of Developing Countries

In addition to the particular needs referred to above, developing countries will require substantial increases in the external resources available to them to enable them to integrate provision for protection and improvement of the environment into their ongoing development policies and practices while achieving the increased levels of development required to meet the needs of their people. The linkage between environment and development will often reduce or remove the distinction between environment and development costs as environmental needs are seen as important in development terms. These needs must include the alleviation of poverty which is as important in environmental terms as it is in development and humanitarian terms. Substantial increases were recommended by the World Commission on Environment and Development.

The work being undertaken by the UNCED secretariat on environment and development and on the relationship between poverty and the environment will include an attempt to assemble and evaluate for presentation to the Preparatory Committee the best available information on these needs and the costs and means of meeting them.

This issue will be of critical importance to the Conference and its outcome. In considering it, the Preparatory Committee will clearly wish to:

(i) Examine the nature and magnitude of these needs as well as the prospects for and means of meeting them, which are referred to in more detail in paragraph 7 below;

(ii) How such needs can be met without imposing new forms of conditionality or distorting the development priorities of developing countries;

(iii) What criteria should be used to establish "additionality" over and above present levels of official development assistance?

6. Environmental Programmes

In 1972 the United Nations General Assembly established a voluntary fund, the Environment Fund of UNEP "to provide additional finances for environmental programmes". This Fund has been an indispensable source of support for UNEP's

programmes in the areas of assessment, management and supporting activities, particularly in respect of developing country participation in them. The modest level of the resources made available to the Fund has imposed severe constraints on UNEP's programme and activities at a time when the needs for and demands on UNEP have been growing substantially. Major increases will be required in UNEP's programme and budget in the period ahead, particularly as a result of decisions to be taken at the 1992 Conference and these will need to be accompanied by significant increases in contributions to the Fund of UNEP, as recommended by the World Commission on Environment and Development.

The Executive Director of UNEP has called for an increase in the Fund of UNEP to a level of $250 million annually and his recommendations will be considered at the next meeting of UNEP's Governing Council. In the meantime, a number of countries have increased their contributions to the Fund which have augmented the resources available to it while falling short of the current target of $100 million per year set by UNEP's Governing Council.

The following are some of the questions the Preparatory Committee may wish to consider in respect of the Environment Fund of UNEP in light of any views which may be expressed or recommendations made by the Governing Council of UNEP:

(i) Does the Fund in its current voluntary form continue to be the optimum means of financing UNEP and its programme or are changes needed?

(ii) What should be the appropriate relationship between the Fund of UNEP and the support that UNEP receives from the Regular Budget of the United Nations?

(iii) Should the Fund of UNEP be utilized, as originally envisaged, to support or catalyze programmes and activities of an explicitly environmental nature or should it also be utilized to support or catalyze related development activities?

(iv) To what extent should the Fund be utilized to provide direct support of the environment-related programmes and activities of other United Nations system agencies and organizations, as well as those co-operating organizations outside the United Nations system? And to what degree should these organizations be obligated to pick up funding for continuing activities that have been catalyzed by UNEP?

(v) What should be the appropriate relationship between the Fund and other United Nations system funding mechanisms such as UNDP, UNFPA, the Global Environmental Facility recently established by the World Bank in co-operation with UNDP and UNEP, and the various voluntary funds that have been set up to meet special needs and purposes relevant to environment and development?

(vi) In light of the recommendations of UNEP's Governing Council and the programme and budget it adopts as well as the new and additional tasks which UNEP may be called upon to take as a result of decisions of the Conference as well as its decisions on the questions raised above, what additional level of funding will need to be provided to the Fund? What would be the most effective way of providing such

funds - by general increase in voluntary contributions, by special trust funds for such activity or by other, broader funding mechanisms like the Global Environment Facility?

7. Sources of Funding

Although a good deal more work must be done before more definitive estimates of the needs referred to above can be made available to the Preparatory Committee, it is already evident that the amounts required will be far beyond current levels of funding and will require an in-depth re-examination of existing sources and methods of funding and consideration, as required by General Assembly resolution 44/228, of new and innovative approaches to meeting these financial needs. This will clearly involve new thinking and a major change in existing priorities, particularly by industrialized countries. It comes at a time when all are experiencing growing constraints and pressures on their own national budgets and resistance by citizens to new taxes. The costs and economic disruptions of the Gulf War will undoubtedly exacerbate these difficulties.

On the other hand, there is also growing evidence of deepening environmental concern on the part of people accompanied by more and more acceptance of the need to meet the costs of protecting the environment. This is accompanied by the prospect of reductions in military expenditures together with recognition that environmental risks must also now be seen in terms of national and global security. People and nations have always been willing to give priority to meeting threats to their security and to the extent that they begin to consider environmental risks in security terms they may be more willing to accept the costs of avoiding these risks.

Against this background, the UNCED secretariat is initiating studies and consultations on the potential sources of funding to meet these needs and the means of accessing these sources, particularly in relation to the following issues which the Preparatory Committee will wish to consider in this respect:

(i) The extent to which existing sources of Official Development Assistance will contribute to meeting these needs;

(ii) The importance of ensuring that funding is provided on a consistent and reliable basis over time, which in turn raises the question of the appropriate balance between mandatory and voluntary sources of funding;

(iii) The degree to which the principle of burden-sharing should be applied to new and additional sources of funding and the degree to which it is appropriate to continue to rely on voluntary funding on a basis that does not give effect to burden-sharing;

(iv) The possibilities of imposing levies, taxes, or user fees on environmentally-damaging activities or products, such as a carbon tax, and utilizing part of the proceeds to provide the new and additional financial resources required to meet international funding needs;

(v) The possibilities that some portion of the needs for new and additional financial resources may be provided through debt reduction, including innovative approaches like "debt-for-nature" swaps;

(vi) The possibilities that new and additional resources might be made available to developing countries through establishment of a system of tradeable emission permits as proposed by UNCTAD;

(vii) The degree to which new and additional resources may be made available through private investment and the measures required to encourage and facilitate this;

(viii) The prospects for and feasibility of establishing a non-governmental or "people's" fund which would solicit contributions and investment from individuals and other private sources, preferably with the encouragement and support of governments, to help meet the new and additional financial needs, particularly those which can best be met through non-governmental organizations and programmes;

(ix) The extent to which each of the particular financial needs referred to above are to be met by separate, individual appeals to governments and/or other funding sources and the related question as to whether there should be a separate mechanism to which all, or most, international funding needs would be addressed and which would be the instrument for raising from governments and other sources the funds required to meet these needs.

8. Financing Mechanisms

Although the possibility is raised above of establishing a new mechanism for accessing and raising the funds to meet agreed international needs, or some portion of them, the raising of new and additional financial resources does not necessarily require creation of new organizations or mechanisms for dispensing and deploying these resources. The World Bank, the Regional Development Banks, UNDP and the various other agencies, organizations and programmes of the United Nations system have existing and well-established capacities which can be used to manage such new and additional funds.

There have been several proposals for creation of new funds, including the Planet Protection Fund proposed by former Prime Minister Rajiv Gandhi of India and the Global Climate Fund proposed by the Netherlands. It is possible to conceive of establishing a new instrument for raising such funds while continuing to utilize existing organizations for managing and dispensing them.

Whether or not new funding organizations or mechanisms are established, it will be necessary to review and clarify the relationships amongst and respective roles of existing ones. In this respect the Preparatory Committee will want to consider such questions as:

(i) The relationship amongst and respective roles of the existing United Nations funding organizations, e.g. UNDP, the Fund of UNEP, UNFPA and other special funds, particularly in light of the movement towards integration of environment and development;

(ii) The relationship between new funding mechanisms such as the Global Environmental Facility, and legal agreements which provide for funding. For example, is funding to be provided only to those who become parties to such agreements?

(iii) The role of development funding organizations in financing environment-related development projects and activities. For example, UNDP resources currently fund environmental and related projects and programmes to the tune of $500 million. The World Bank and the Regional Development Banks are also providing substantially increased and growing amounts of funding to projects and programmes, as well as non-project, policy-related funding and structural adjustment programmes, that are environment-related;

(iv) The role of the Global Environmental Facility recently established by the World Bank in co-operation with UNDP and UNEP, which brings these issues into focus in more explicit terms, provides an important and concrete example of a new model designed to mobilize new and additional funds to meet specific environment-related development needs.

This Global Environmental Facility is seen as a pilot operation and the experience gained in its establishment and launching will be especially valuable in the consideration of these issues by the Preparatory Committee. The Global Environmental Facility was funded conventionally through voluntary contributions and its management will be integrated with that of the World Bank, in co-operation with UNDP and UNEP. Some of the main questions concerning the role of the Global Environmental Facility which the Preparatory Committee may wish to consider include the degree to which it will be largely a "topping up" fund providing the additional funds required to meet environmental requirements in respect of development projects which are otherwise financed from existing development funding sources and whether it should become the principal mechanism for financing the environmental component of development projects. Other important questions include whether future funding of the Global Environmental Facility will be on a voluntary or burden-sharing basis.

The UNCED secretariat has initiated studies and consultations which will enable it to provide the Preparatory Committee with information and analyses to facilitate its consideration of these important issues. The Preparatory Committee may wish to reserve its main consideration of these important issues until the results are available.